

# Cell-phone job cuts; focus shifting to Asia

Despite Q1/2001 sales down 14% from Q4/2000 to US\$7.14bn, **Nokia** increased its market share further in both handsets (where it cornered 80% of all profits) and networks. Nokia has also entered the last major cellular market where it did not have a presence before, CDMA-based Korea (the third biggest market in the Asia-Pacific after Japan and China).

In contrast, **Ericsson's** sales were down 5% to SEK\$55.9bn (US\$5.53bn), with handset shipments down 41% to 6.2m.

Further to the 9000 job cuts in January (via outsourcing manufacturing to Flextronics - see Issue 2, page 4), in late March it cut 3300 more in Sweden and the UK, then in mid-April a further 10,000 (mainly non-manufacturing). By end-2001 staffing will be less than 5,000 in its phone operations, *"limited to the essential parts that support the systems business"*.

Ericsson now expects a total cell-phone market of 430-480m in 2001 (including 20-25m GPRS phones) and about the same revenues as 2000 (due to 10-20% price erosion), but subscriber growth still of 25-35% to 920-950m by end-2001 and 1bn during first-half 2002.

It also says infrastructure market growth will slow from 20-25%

in 2000 to 5-15% in 2001. This reflects economic uncertainties, the timing of migration from TDMA to GSM/GPRS in the Americas, and lower spending for PDC in Japan in anticipation of the roll-out of 3G (expecting China to become its largest market again). Strong subscriber up-take is expected for GPRS in second-half 2001 and 3G in 2003.

**Motorola's** Q1/2001 sales were US\$7.8bn (down 11% on Q1/2000 and 23% on Q4/2000):

- Personal Communications US\$2.3bn (down 29% on Q1/2000), with cell-phone sales down significantly in Europe but orders up in Asia;
- Broadband US\$818m (up 21%);
- Semiconductor Products US\$1.5bn (down 22%), with orders down 47% (mainly for wireless).

The downturn in the US is "beginning to spill over to the rest of the world". Motorola expects total sales to increase in Q2/2001 but chip sales to drop.

Motorola is to cut another 4,000 jobs (in its network equipment making division), making 22,000 since December (15% of its 147,000 staff) plus another 12,000 worldwide (including 3100 by closing its plant in Bathgate, Scotland, UK).

At the *CeBIT* consumer electronics trade show in Hanover, Germany in late March, **Siemens'** head of communications products, Peter Zapf, claimed that Siemens would "gain a larger share of the cell-phone market than [3rd-place] Ericsson within a couple of years". In the past two years, it has taken second place in Europe with 16% of sales (behind Nokia) and 14% of the Chinese market. Siemens now plans to take on the North American and South American markets.

However, Siemens is to cut 6100 jobs in its mobile communications and networking division after fiscal Q2/2001 profits were down 11% to €578m. This was despite revenues up 8% to €20.6bn. Phone sales were 6.9m but "sharp price erosion" led to handset division losses of €143m. Siemens is now concentrating production at its plant in Kamp Lintfort, Germany.

**Philips'** Q1/2001 sales were €8.2bn (down just 1% on Q1/2000), but profits were down 90% after selling just 1.5m cell phones (half the number it sold in Q1/2000). Philips is cutting 6-7000 jobs (3% of its 220,000 workforce, already down 10,000 year-on-year) and restructuring at a charge of €350m.

For Q1/2001 **Alcatel** reported sales of handsets (which make up just 7% of revenues) down more than half to 2.4m (making a loss of €159m) and a two-week production stoppage at its two French handset factories.

Now, Alcatel is outsourcing by concentrating production in its plant in Laval, France and transferring it (and 830 staff) to Singapore's **Flextronics International** (its other site in Illkirch will be converted for optical component manufacturing). Alcatel is *"not a long-term strategic player in handsets"*, said CEO Serge Tchuruk.

Tchuruk denies that Alcatel is pulling out of the handset production business altogether, but the outsourcing does not preclude Alcatel later combining with another handset maker.

Alcatel is targeting acquisition of optical component companies "in first-half 2001", says president Christian Reinaudo. Tchuruk has confirmed a bid for Lucent's fibre-optic business.

Alcatel has lowered its 2001 growth forecast from end-January's 20-25% to 5-15%.

For France's **Sagem**, sales of handsets and other communication products were down more than 45% in Q1/2001. However, it down-played rumours of a merger.

## Ericsson-Sony partnership - the start of consolidation?

**Ericsson** is forming a new 50:50 London-based joint venture with **Sony** called **Sony Ericsson Mobile Communications** which, from October, will combine their respective cell-phone operations (excluding manufacturing).

Ericsson's share of the handset market slumped to 10.7% in 2000 but it has a lead in infrastructure; Sony has just 10% handset market share in Japan and 1-2% globally,

but its multimedia consumer electronics expertise (important for 3G) can give it an entry into the European market.

The joint venture will employ 2500 from Ericsson and 1000 from Sony, with Sony mobile devices executive Katsumi Ihara as president and Ericsson CEO Kurt Hellström as chairman.

**Motorola** is said to be in talks with **Mitsubishi** about forming a

joint venture to make handsets for the North American market.

Motorola also has a non-exclusive global agreement with **Nortel Networks** to jointly market an integrated 3G solution featuring Motorola cell phones. Despite winning only seven of the 60-70 3G network contracts so far, it is aiming for 25% of the market by 2003, adding *"we don't need mobile phones to do so."*

## China handset market to triple

According to the Strategies Group, China's cell-phone market will grow at 21.6% annually over the next several years (almost tripling over the next two years), from:

- 38.1m subscribers in 1999 to
- 85.2m in 2000, then
- 119.3m in 2001,
- 154.6m in 2002,
- 190.6m in 2003, and
- 334m by 2007.